

An important cross-border tax-filing deadline is approaching. Here's what you need to know

TERRY RITCHIE AND KRIS ROSSIGNOLI

SPECIAL TO THE GLOBE AND MAIL

PUBLISHED 6 HOURS AGO



Americans who live in Canada are considered income tax residents of both countries. But in most cases, double taxation on worldwide income can be eliminated or reduced.

DAMALONEY/ISTOCKPHOTO / GETTY IMAGES

Sign up for the [Globe Advisor weekly newsletter](#) for professional financial advisors on our [sign-up page](#). Get exclusive investment industry news and insights, the week's top headlines, and what you and your clients need to know. For more from [Globe Advisor](#), visit our [homepage](#).

Americans are well aware that they have to file their annual tax returns and forms to the U.S. Internal Revenue Service (IRS) by April 15. However, Americans living abroad, including those in Canada, and some Canadian snowbirds who spend their winters stateside may not be aware that they automatically receive a two-month extension to file their U.S. tax returns.

This year, that deadline is Monday, June 17. A further extension to Oct. 15 can be requested by filing IRS Form 4868. To avoid interest charges, though, taxes owed for the 2023 taxation year were due by April 15.

Reminders for U.S. citizens living in Canada

According to the U.S. State Department, some nine million U.S. citizens live or work outside the U.S. At an international estate planning conference held in Toronto last week, it was suggested that more than a million Americans live or work in Canada.

U.S. citizens are required by law to file a U.S. tax return annually and declare their worldwide income – including Canadian-source employment income, investment income and capital gains – adjusted for U.S. dollars, despite the fact they no longer physically live in the U.S. or earn income there. Under the Canada-U.S. Tax Treaty, Canada Pension Plan, Old Age Security and U.S. Social Security benefits are exempt from U.S. income taxes.

Americans who live in Canada are considered income-tax residents of both countries. But in most cases, double taxation on worldwide income can be eliminated or reduced through the U.S. foreign-earned income exclusion (FEI) and the use of foreign tax credits.

The FEI (using IRS Form 2555) eliminates up to US\$120,000 for the 2023 taxation year (or US\$126,500 for the 2024 taxation year) of Canadian-source employment income from U.S. income taxes as long as the American in Canada meets one of two tests – the bona fide residence test or the physical presence test – which apply if the taxpayer is out of the U.S. for one year or more. Note that this relates only to employment income and doesn't include other forms of worldwide income such as investment income or capital gains.

Also, given that net income tax rates are generally higher in Canada, U.S. taxpayers who are resident in Canada for tax purposes are entitled to reduce or eliminate exposure to U.S. taxes through the use of foreign tax credits (using IRS Form 1116).

Along with filing a U.S. tax return (IRS Form 1040), Americans living in Canada are required to file IRS Form 8938 (Statement of Specified Foreign Financial Assets) if their bank, investment, retirement and other foreign assets exceed certain thresholds based on their U.S. tax-filing status. For example, for an American living in Canada who is married, the threshold would be foreign assets exceeding US\$400,000 on the last day of the taxation year, or more than US\$600,000 at any time during the taxation year.

Also, those with foreign financial accounts that exceed US\$10,000 at any time during the tax year must file FinCEN Form 114 – traditionally known as the FBAR (Report of Foreign Bank and Financial Accounts) – by April 15 or with an automatic extension to Oct. 15.

Additional IRS filing requirements could exist for Americans living in Canada who have an interest in a Canadian business, trust or tax-free savings account, or who received a gift or inheritance from a non-U.S. person.

Reminders for Canadian snowbirds

Canadian snowbirds who consistently spend their winters in the U.S. might also have IRS filing requirements for June 17.

The IRS uses the “substantial presence test” to determine who is a U.S. resident for tax purposes. Those who wish to avoid being treated as a U.S. resident can file IRS Form 8840 (Closer Connection Exception Statement for Aliens) by June 17 for the 2023 taxation year.

Canadians who own and rent out U.S. real estate must file a U.S. income tax return (IRS Form 1040NR – U.S. Nonresident Alien Income Tax Return) and report any net real estate income or loss on IRS Schedule E. Under U.S. rules, there’s a mandatory deduction for depreciating the property. But even if the expenses and depreciation deduction exceeds the rental income, resulting in a net loss, the Canadian tax

resident still must file a U.S. tax return – and, in some cases, a state tax return – by June 17.

Canadians must also report U.S. rental income and expenses on Canadian tax returns using the Canada Revenue Agency’s (CRA) Form T776. If the property’s value exceeds \$100,000, it should also be reported on CRA Form T1135 (Foreign Income Verification Statement).

Canadians who sold U.S. real estate in 2023 will have to file IRS Form 1040NR and report the capital gain or loss on IRS Form Schedule D by June 17. Under specific U.S. tax rules, there may be a requirement to have the U.S. – and in some cases the state – withholding taxes withheld from the proceeds of the sale. There’s still a filing requirement if the property was sold for a loss.

Canadians are also required to report the sale of the U.S. property on their Canadian T1 using Schedule 3. The original cost and sales values will be different as they have to be adjusted for exchange rates at the time of purchase, capital additions and sale.

Terry Ritchie, R.F.P., TEP, EA (IRS) and Kris Rossignoli, CPA (CA, US), CFP (CA, US), TEP are Partners with Cardinal Point Wealth Management.

For more from Globe Advisor, visit our [homepage](#).

Sign up for our new Business Brief newsletter. A daily look at the most important business stories that are making news and moving markets, written by Chris Wilson-Smith

SIGN UP | EXPLORE NEWSLETTERS

[Report an editorial error](#)

[Report a technical issue](#)

[Editorial code of conduct](#)

More from Investing